

# Student loans

Why should you find out about student loans? Unless you get a full scholarship or can pay for your schooling out of your own pocket, you'll probably have to take out student loans. Before you borrow money for college, you should learn more about student loans.

Starting on page 44, you read about five federal student loan types: Perkins, Stafford, PLUS, Nursing and Primary Care. The most common types are Stafford and PLUS. Unless otherwise noted, the information about federal loans that follows will deal with Stafford and PLUS loans.

There are two federal student loan programs: the Federal Family Education Loan Program (FFELP) and the Federal Direct Loan Program. There are some differences between FFELP and Direct Loans. Colleges can participate in either the FFELP or Direct program, or they can participate in both.

Some students find, after figuring in grants, scholarships, work-study and federal loans, that they need more help paying for college. Many will turn to private loans, also called alternative loans, for that extra money. You'll find information about private loans on the following pages too.

Here are some terms you need to know. Terms that are defined elsewhere are in ***bold italics***. Some of these terms apply only to federal student loans, some to both federal and private loans.

To learn more, click on

**paying for  
college**

at [GoHigherKY.org](http://GoHigherKY.org)

❑ **Borrower benefits** — Think of these in terms of a price break you get when you buy something and a rebate you get after you buy it. A ***lender*** can charge an ***origination fee***, while a ***guarantor*** must charge a ***federal default fee***. Some lenders or guarantors may pay these fees for you. These fees are deducted before you see the money, so the lower the fees, the more money you get to pay for college.

You may also be able to get breaks when you start repaying your loan. Some lenders may charge you a lower ***interest*** rate if you follow certain criteria.

❑ **Federal default fee** — The ***guarantor*** must charge you 1 percent of your loan as a default fee. Some guarantors may pay this fee for you.

❑ **Guarantor** — The guarantor, such as KHEAA, has a contract with the ***lender*** to pay off a student loan under special circumstances. So, the guarantor is like an insurance company.

❑ **Interest** — This is the money you pay the ***lender*** for letting you use its money to pay your school costs. It's just like the interest you pay on your car loan, only it's generally lower.

❑ **Lender** — The lender is whoever loans you the money. It can be a bank, a nonprofit state corporation, a credit union or some other financial institution.

❑ **Origination fee** — This helps cover the costs the ***lender*** has to pay for doing business with you. Lenders can charge up to a 1 percent ***origination fee*** on Stafford Loans. Some FFELP lenders do not charge an origination fee on Stafford Loans. The Direct Loan Program always charges the origination fee. The origination fee on Stafford Loans is gradually being phased out. For the 2009-2010 academic year, the fee will be 0.5 percent. Beginning with the 2010-2011 academic year, the fee will no longer be charged. The origination fee on private loans will be based on your credit rating.

On PLUS Loans, the lender must charge a 3 percent origination fee.

The origination fee on a private loan will usually depend on your credit rating.

❑ **Principal** — This is the amount you borrow *before* the ***origination fee*** and ***federal default fee*** are deducted. The interest you are charged will be based on the principal.

Remember that Congress can change the fees on federal student loans at any time. The information above was accurate as of the time that *Adults Returning to School* went to press.



# Student loan tips

You should research all other means of financial aid before taking out a student loan. Don't forget that a student loan has to be repaid, whether you finish your education or like the school or program you've started. You're taking on a commitment that will help improve your future but that also requires you to be responsible. By making your payments on time, you're establishing yourself as a good credit risk. This will help you when you need to borrow money for another purpose. Here are some tips that will help you to borrow wisely.

## Tip 1: Contact the school you plan to attend

Find out what other financial aid you qualify for before applying for a student loan. Grants, scholarships and work-study usually don't have to be repaid.

Ask the financial aid officer how much the total cost of attending school, including the estimated living expenses, is going to be.

Know what the school's refund policy is. Ask the financial aid officer or check the student handbook or class schedule.

## Tip 2: Check out the job you're interested in

Find out the job opportunities in that field to make sure you'll be able to earn enough to pay back what you borrow as well as meet any other expenses you will encounter when you're in the working world. Defaulting on a student loan isn't an option, even if you can't find a job in the field you've trained for or if you don't make as much money as you thought you would. Research before committing yourself to a job where you won't earn enough money.

Check with the school about entrance counseling. The school you'll be attending is required to provide this before you receive your first Federal Stafford Loan.

## Tip 3: Find out about student loans before borrowing

Borrow only what you need. Remember, you have to repay your loan.

The current interest rate on subsidized Stafford Loans is 6 percent, while the rate on unsubsidized Stafford Loans is 6.8 percent. This chart shows the approximate monthly payments for various amounts at those interest rates. If you have loans from different lenders, you'll have to pay both lenders at the same time. For a quick estimate of how much you'll pay based on how much you have borrowed, the interest rate, and the repayment period, use the Loan Repayment Calculator at [www.kheaa.com](http://www.kheaa.com).

Consider getting all your loans through one lender so you don't have to make payments to two or more lenders. This will simplify the process. For more information, visit [http://www.kheaa.com/pdf/forms/staf\\_mpn\\_fill.pdf](http://www.kheaa.com/pdf/forms/staf_mpn_fill.pdf).

Use student loans only for educational purposes. Giving false information, forging information or using loans for any purpose other than legitimate school expenses is a crime.

Generally, you have up to 10 years to repay your student loans. The minimum monthly payment is \$50. Your repayment duration and amount will be based on your loan balance. An extended repayment plan may be available if you owe more than \$30,000 in student loans and when you took those loans out. Under the extended repayment plan, you can take up to 25 years to pay, depending on how much you owe.

## Tip 4: What happens after the first year?

Most financial aid programs have renewal requirements and some limitations such as:

- Advancing to the next grade level.
- Requiring students to reapply each year.
- Limiting the number of years aid can be received.

## Tip 5: Now the fun part — repayment!

When you start making payments, think about paying a little extra—a few more dollars paid each month reduces the overall amount of interest you will pay over the life of the loan. If you pay an extra \$10 each month, \$120 a year, the extra money is applied to the principal, which lowers the total interest you end up paying.

If you have any trouble making your payments, contact your lender immediately. You may be able to postpone or reduce your payments temporarily. Before you enter repayment, you will go through exit counseling.

If you have more than one federal student loan, contact your lender about a Federal Consolidation Loan, which lets you combine your federal student loans into one loan. **Private loans cannot be consolidated with federal student loans.**

Federal Stafford Loan Repayment		
Amount Borrowed	Estimated Monthly Payment	
	6.0%	6.8%
\$ 5,000	\$56	\$58
\$10,000	\$111	\$115
\$15,000	\$167	\$173
\$20,000	\$222	\$230
\$25,000	\$278	\$288
\$30,000	\$333	\$345
\$35,000	\$389	\$403
\$40,000	\$444	\$460

# Repaying your student loans

While student loans can help you get a college education, they bring responsibilities while you're in school as well as after you finish.

Many borrowers think they don't have to worry about their student loans until they graduate or leave school. But you should immediately notify your lender and current school in writing if you:

- Change your address or telephone number. (Filing an address change with the post office isn't enough.)
- Change your name.
- Transfer to a new school.
- Drop below half-time enrollment, withdraw or graduate.
- Change your anticipated graduation date.

You should check into your repayment, deferments, forbearances and loan consolidation options.

If you have questions or need help, call one of KHEAA's borrower advocates at 800.928.5327; write KHEAA, P.O. Box 798, Frankfort, KY 40602-0798; fax 502.696.7655; or e-mail [Default\\_Aversion@kheaa.com](mailto:Default_Aversion@kheaa.com).

## Things to know about repayment

Unless otherwise advised by the school, lenders use the anticipated graduation date listed on your most recent loan application to place your loan into repayment. It's your responsibility to notify your lender of any enrollment change. Don't wait for your lender to contact you. If you graduate, leave school or drop below half-time enrollment, call your lender to set up a payment schedule.

Remember:

- A loan must be repaid. Signing a promissory note is a promise to repay the loan, even if you're dissatisfied with your school, don't graduate or don't find a job.
- A grace period is the time between when you leave school or drop below half-time status and when you begin repaying your loan. It's usually six months for federal student loans. Some private loans don't have a grace period; others do.

### You should:

- ✓ Contact your lender *in writing* when you change your name, address, enrollment status or school.
- ✓ Always keep copies of all correspondence relating to your loans for future reference.
- ✓ Avoid unexpected early repayment by informing your lender if you transfer schools or change the date you expect to complete your studies.

- Although it's up to you to know when repayment begins, your lender will provide a repayment schedule that lists repayment terms and conditions. Notify your lender of any change to your address. Your loan can default without your knowledge if your lender can't contact you. Defaulting is serious, so keep in contact with your lender.

You have five repayment options for Stafford Loans. Under the first three, you generally have up to 10 years to repay your loan.

### Standard repayment

is the traditional option. You pay a set amount each month over the maximum repayment period. The monthly payments may change each year to reflect a change in the interest rate. The minimum payment is usually \$50.

**Graduated repayment** lets your monthly payments change (usually increase) over the repayment period.

### Income-sensitive repayment

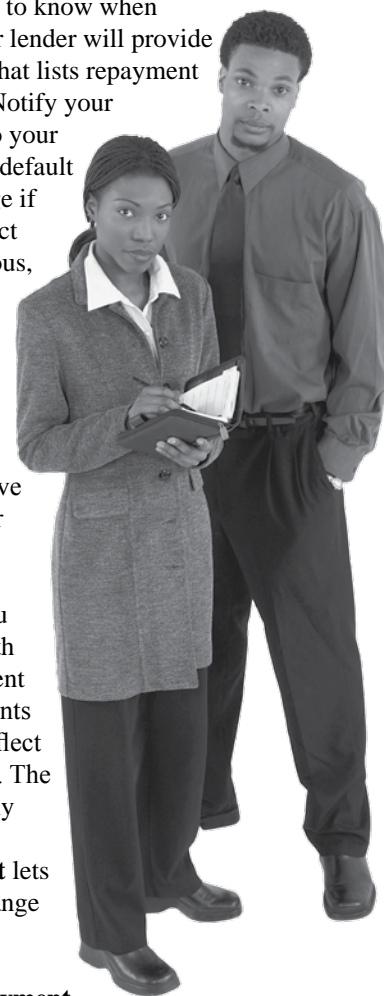
is available if you provide the lender with information on your expected total gross monthly income. Unless you consolidate your loans with your spouse, this doesn't include your spouse's income. You must provide documentation each year so the lender can adjust your payment amounts.

**Income-based repayment** has a payment cap, less than 10 percent for most people, based on income and family size. It also forgives any remaining debt after 25 years of making regular payments. This repayment option will go into effect in July 2009.

**Extended repayment** is available if you owe more than \$30,000 in student loans and don't owe anything on loans taken out before October 7, 1998. Under this plan, you can take up to 25 years to pay, depending on how much you owe.

In addition, **public service loan forgiveness** will forgive remaining debt after 10 years of employment and regular loan payments for people in public service professions such as teaching, government, social work and law enforcement. For more information, call 800.4.FED AID (800.433.3243).

The options above are available for federal student loans. If you plan to get a private loan, shop around to find the lender with the options that are best for you.





### Deferment

A deferment is a period of time when you don't have to make payments. On subsidized loans, interest that accrues during deferment is paid on your behalf by the federal government; on unsubsidized loans, you must pay the interest during these periods. If you show that you're eligible for a deferment and provide the required documentation, your lender must give you the deferment.

You have to request a deferment and provide the documents that support your eligibility. The lender must grant you a deferment if you qualify. Eligibility varies by deferment type. Not all types apply to all borrowers.

The most common deferments are:

- **In-school or Student Deferment** for periods of full-time and half-time study at an eligible school.
- **Summer Bridge Deferment Extension** when you attended school in the spring and plan to reenroll in the fall.
- **Graduate Fellowship Deferment** for periods of study under an eligible graduate fellowship program.
- **Unemployment Deferment** when you are really trying to find a full-time job but can't. (Full-time employment means at least 30 hours of work each week that's expected to last at least three months.)
- **Economic Hardship Deferment** when you earn less than minimum wage or exceed a federally defined debt-to-income ratio.
- **Rehabilitation Training Program Deferment** while you participate in a qualified rehabilitation training program.
- **Temporary Total Disability Deferment** if you're temporarily totally disabled or unable to find or continue work because you're caring for a dependent or spouse who's temporarily totally disabled.
- **Military Deferment** while you're on active duty with the military during war, national emergency, or military operation.
- **Parental Leave Deferment** if you are pregnant or caring for a newborn or newly adopted child.

- **Working Mother Deferment** for mothers of preschool-age children entering or reentering the work force.

The chart on page 54 shows specific eligibility criteria and more deferment types.

### Forbearance

If you can't make your scheduled payments, your lender may let you temporarily stop making payments. This is called a forbearance. During a forbearance, interest continues to accrue while you delay or reduce payments. You can request a forbearance to allow for:

- A short period of time during which you make no payments.
- An extension of time for making payments.
- A period during which you make smaller payments than were originally scheduled.

You should explain your situation to the lender or servicer, who will decide whether to grant a forbearance. Forbearances are granted at the discretion of the lender.

### Loan consolidation

Paying back student loans can be overwhelming, especially if you have loans from more than one lender or have more than one type of loan. That means having to keep track of making several payments each month.

A Federal Consolidation Loan lets you combine your federal student loans into one loan with one lender, so you only have to make one payment each month. The payment may be less than what you would have to pay if you don't combine your loans. You'll probably take longer to pay back your loans, which means you'll pay more interest.

You can choose from three payment plans: level, graduated and income-sensitive.

- Under the level plan, you make the same payment each month.
- With the graduated plan, the first two years you pay only the interest on the loan. After that, you pay more each month to pay off the loan.
- Under the income-sensitive plan, payments are based on how much you make. The payment must at least cover interest.

How long you have to repay your loan depends on how much you owe.

Amount Consolidated	Maximum Repayment Term
Up to \$7,499	10 years
\$7,500–9,999	12 years
\$10,000–19,999	15 years
\$20,000–39,999	20 years
\$40,000–59,999	25 years
\$60,000 or more	30 years

You can get an idea of how much your monthly payments will be by using the chart below. Find the length of time you will be repaying your loan, based on the list above showing how much you owe. Multiply the dollar amount below by every \$1,000 you owe. The chart is based on an 8 percent interest rate.

10 years.....	\$12.13
12 years.....	\$10.82
15 years.....	\$ 9.56
20 years.....	\$ 8.36
25 years.....	\$ 7.72
30 years.....	\$ 7.34

If you owe \$15,000 in student loans, you have 15 years to repay your loan. Based on the chart on the previous page, your payment would be 15 x \$9.56, or \$143.40 a month. It may be a little less or a little more, since there's some rounding involved.

Here is more information you need to know about consolidating your federal student loans.

#### **What loans can I consolidate?**

Just about any federal student loan, including Stafford Loans, Perkins Loans and PLUS Loans. You can also consolidate Federal Insured Student Loans (FISL), Health Education Assistance Loans (HEAL), Health Professions Student Loans (HPSL), Loans for Disadvantaged Students (LDS) and Federal Nursing Student Loans.

If you have a Perkins Loan, look closely at whether you want to give up the low fixed-interest rate or forgiveness programs associated with Perkins Loans. You may wish to talk with your financial aid advisor about the advantages and disadvantages of consolidating these loans.

Private loans cannot be consolidated in a Federal Consolidation Loan, but some private lenders may offer loan consolidation options of their own.

#### **What if I'm behind on my payments?**

You still may be able to consolidate your student loans if you're behind on your payments. But you must already have made arrangements to repay the loan or you have to repay your loans under an income-sensitive repayment plan. Contact the holder of your loan immediately.

You may even be able to consolidate your loans if you're already in default. Contact your loan holder to find out how.

The best time to consolidate your loan is six to eight weeks before your grace period expires. The grace period is the six months between the time you finish school and the time you have to start repaying your student loans.



#### **What about deferments and forbearances?**

You can get a deferment or forbearance if you meet the conditions. Contact your lender to see if you qualify.

#### **Don't damage your future**

Although most student loan borrowers repay their loans on schedule, others can't because of high debt, emergencies and other circumstances. Defaulting on your federal student loan repayment can have serious consequences, such as:

- You will be denied additional student loans, grants and other aid.
- All national credit bureaus will be notified of the default, severely damaging your credit rating.
- Some of your wages may be taken directly from your employer to pay your defaulted loan.
- Your federal and state income tax refunds or other monies owed to you may be taken to pay your defaulted loan.
- Collection charges of 25 percent may be added to your loan debt.
- You may be sued.

Avoid the consequences of a defaulted loan by taking advantage of the opportunities available to you. Be sure to contact your lender whenever you have a problem or question.

KHEAA is committed to helping students avoid defaulting on their student loans. If you're unable to resolve a delinquency problem and would like to speak with one of KHEAA's borrower advocates, call 800.928.5327.



## Deferment Eligibility Chart

Form	Deferment Type	Time Limit	Stafford and SLS Loans			PLUS Loans				Consolidation Loans	
			Pre 7/1/87 Borrower	New <sup>1</sup> Borrower 7/1/87 to 6/30/93	New <sup>2</sup> Borrower 7/1/93	Loans Before 8/15/83	Pre 7/1/87 Borrower	New <sup>1</sup> Borrower 7/1/87 to 6/30/93	New <sup>2</sup> Borrower 7/1/93	Borrower Consolidates Before 7/1/93 <sup>7</sup>	New <sup>2</sup> Borrower 7/1/93
SCH	In-School: Full Time	None	•	•	•	•	•	•	•	•	•
	In-School: Half Time	None		•	•			•	•	•	•
EDU	Graduate Fellowship	None	•	•	•	•	•	•	•	•	•
	Rehabilitation Training	None	•	•	•	•	•	•	•	•	•
	Teacher Shortage	3 Years		•							
	Internship/ Residency Training	2 years	•	•		•					
TDIS	Temporary Total Disability <sup>3</sup>	3 Years	•	•		•	•	•		•	
PUB	Armed Forces or Public Health Services <sup>4</sup>	3 Years	•	•		•					
	National Oceanic and Atmospheric Administration Corps <sup>4</sup>	3 Years		•							
	Peace Corps, ACTION Program and Tax-Exempt Organization Volunteer	3 Years	•	•		•					
UNEM	Unemployment	2 years	•	•		•	•	•		•	
	Unemployment	3 Years			•				•		•
PLWM	Parental Leave <sup>5</sup>	6 Months	•	•							
	Mother Entering/Reentering Work Force	1 Year		•							
HRD	Economic Hardship	3 Years			•				•		•
PLUS <sup>6</sup>	In-School: Full Time	None				•	•	•			
	In-School: Half Time	None				•	•	•			
	Rehabilitation Training	None				•	•	•			

<sup>1</sup> "New Borrower" 7/1/87 to 6/30/93: A borrower whose first FFELP loan was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993, or who had no outstanding balance on a Federal Consolidation loan made before July 1, 1993, that repaid a loan first disbursed before July 1, 1987.

<sup>2</sup> "New Borrower" 7/1/93: A borrower whose outstanding FFELP loans were all made on or after July 1, 1993, and when his or her first FFELP loan was made on or after July 1, 1993, had no outstanding FFELP loans that were made before July 1, 1993.

<sup>3</sup> A deferment may be granted during periods when the borrower is temporarily totally disabled or during which the borrower is unable to secure employment because the borrower is caring for a dependent (including the borrower's spouse) who is temporarily totally disabled.

<sup>4</sup> Borrowers are eligible for a combined maximum of 3 years of deferment for service in NOAA, PHS, and Armed Forces.

<sup>5</sup> A parental leave deferment may be granted to a borrower in periods of no more than 6 months each time the borrower qualifies.

<sup>6</sup> Deferment for parent borrower during which the dependent student for whom the parent obtained a PLUS loan meets the deferment eligibility requirements.

<sup>7</sup> A borrower who received a Federal Consolidation loan that repaid a loan made before July 1, 1987, for a period of enrollment beginning before July 1, 1987, is eligible for in-school deferment only if the borrower attends school full time.